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Economic Intelligence Report

**THE NATURE AND PROSPECTS
OF THE ALBANIAN ECONOMY:
A BRIEFING PAPER**



CIA/RR ER 62-17

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CENTRAL INTELLIGENCE AGENCY

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FOREWORD

This report briefly describes the economy of Albania and considers the probable consequences of Albania's strained economic relations with countries of the Soviet Bloc. Sections II through X of the report are illustrated graphically by Figures 1 through 9. In some instances, economic characteristics are illustrated with data for 1959, the last year covered in the most recent Albanian statistical yearbook, but some preliminary data are available for 1960-62 from other sources.

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THE NATURE AND PROSPECTS OF THE ALBANIAN ECONOMY:
A BRIEFING PAPER*

I. Introduction

As a result of the intensification of its ideological dispute with the USSR, Albania is drastically shifting its foreign trade to Communist China, which is planned to account for 59 percent of Albanian turnover in 1962. All long-term credits extended by the USSR and other European Satellites were canceled in 1961, and the USSR has terminated diplomatic relations and apparently ended trade relations with Albania. Trade relations with the Satellites are continuing, however, at a level not much different from that of 1960. ✓

The credit of \$125 million** extended by China early in 1961 compensates at least partly for Albania's loss of Soviet and Satellite credits, and China reportedly extended another credit early in 1962, the nature and amount of which have not been revealed. This aid and expanding exchanges of goods permitted a rapid growth of Albanian-Chinese trade in 1961, which is to continue in 1962 with an increase of 130 percent. The amount and timeliness of Chinese support and Albania's success in increasing trade with non-Bloc countries have greatly eased the impact of Soviet sanctions.

Albanian economic growth and living conditions in 1962 probably will be little affected by the rupture of relations with the USSR. China can provide the required small amounts of industrial materials and wheat without great difficulty, and the slowdown in investment expenditures is expected to have only a small effect on the growth of industrial production. It seems likely that industrial growth will continue at more or less the same rate as in 1961 and that the planned 6-percent increase will therefore be approximated.

Even if the credits canceled by the Soviet Bloc are fully made up by China, there is some doubt that Albania's stock of industrial facilities can be expanded fast enough to yield an average annual increase in gross industrial production of 9 percent during 1961-65, as scheduled in the Third Five Year Plan (1961-65). Albania also faces a potentially important problem in obtaining the spare parts needed to keep its facilities operating. No serious disruption of production seems likely as long as Albania can obtain parts from other Satellite countries, but the loss of these deliveries could cause serious problems, inasmuch as China cannot meet this need as effectively.

* The estimates and conclusions in this report represent the best judgment of this Office as of 1 May 1962.

** Dollar values are given in current US dollars throughout this report.

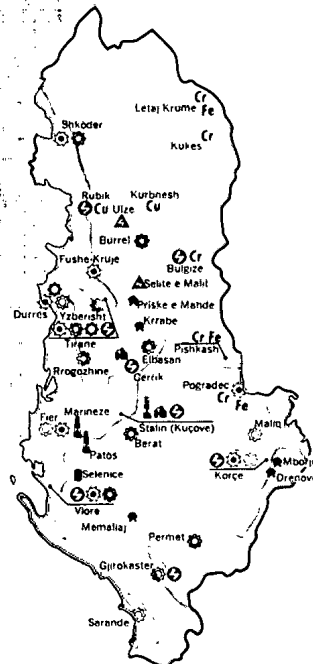
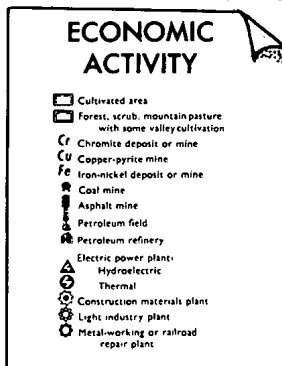
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Figure 1

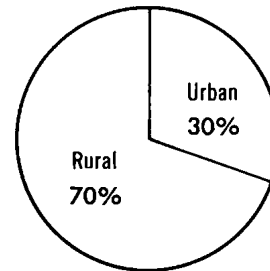


ALBANIA

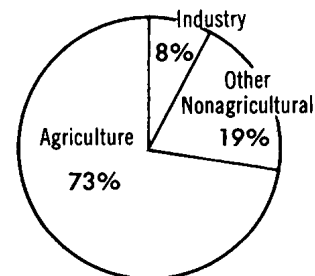
GENERAL CHARACTERISTICS OF THE ECONOMY



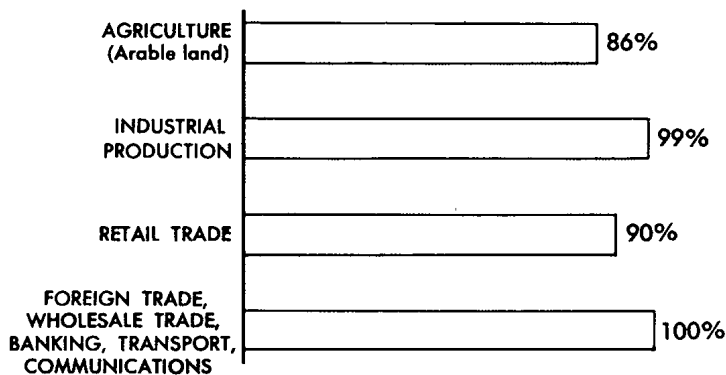
POPULATION: 1,665,000
(Mid-1961)



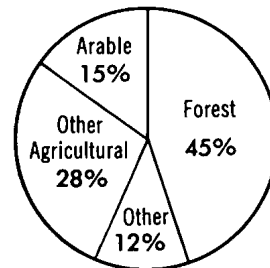
EMPLOYMENT: 838,000
(Mid-1960)



PERCENT OF ECONOMIC ACTIVITY, SOCIALIZED, 1961



AREA: 11,100 SQUARE MILES
(1959)



II. General Characteristics of the Economy

Albania is the smallest and most backward of the European Satellites -- a predominantly agricultural country that has been economically dependent on a succession of foreign powers in recent times. The country is about the size of Maryland and has a population of 1.7 million people, nearly 70 percent of whom live in rural areas. Agricultural land accounts for 43 percent of the total area, but only one-third of this land is arable. All major crops characteristic of US and European agriculture can be grown in Albania, but farming methods are primitive, agricultural yields are very low, and the country is not self-sufficient in basic foodstuffs in spite of the substandard level of food consumption. Forests cover nearly one-half of the total area and are an important source of fuel and of wood for construction and export.

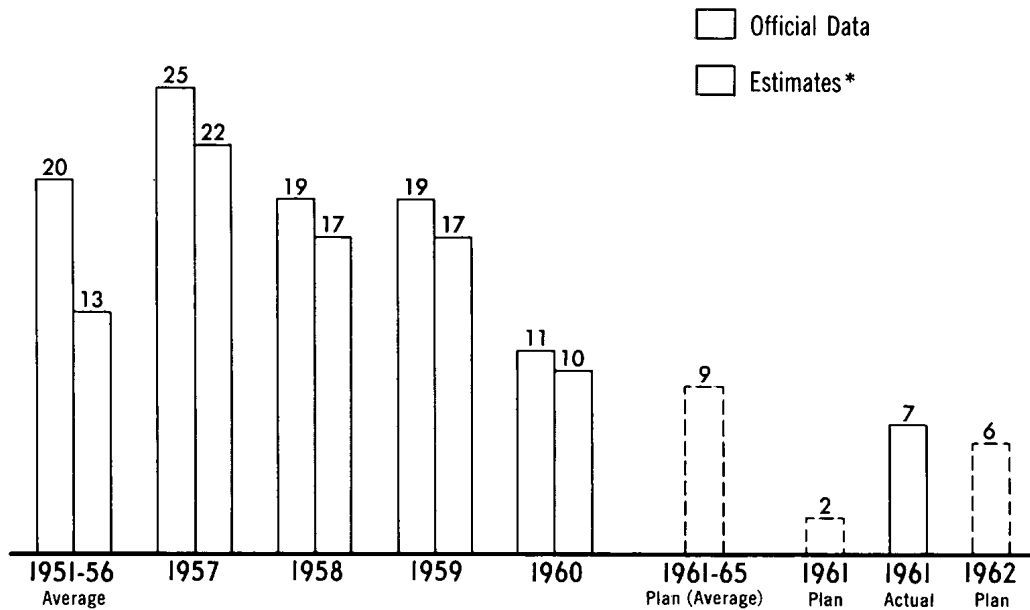
Apart from the land the natural resources of Albania consist largely of low-grade coal; petroleum; chrome, copper, and iron-nickel ores; and construction materials. The hydroelectric power potential is large but mostly unexploited. Poor as they are, roads are the most important part of the transportation network, as there are only about 100 miles of railroad line.

Like the other European Satellites, Albania has adopted Soviet-type institutions in order to gain a large measure of control over production and distribution of goods and has followed Soviet-type policies in its efforts to modernize and industrialize the economy. Industry has received much greater material support than agriculture, and agricultural progress has been impeded by the campaign to socialize agriculture, which has now brought 86 percent of the arable land under the control of collective and state farms. Although industrial production has grown much more rapidly than agricultural production, the industrialization of the country has barely begun, and agriculture still contributes considerably more than industry to the national product. In spite of the improvements of the postwar period, labor productivity and living standards remain low in both urban and rural areas because of the small stock of capital, the low educational level, poor nutrition and health standards, and managerial deficiencies.

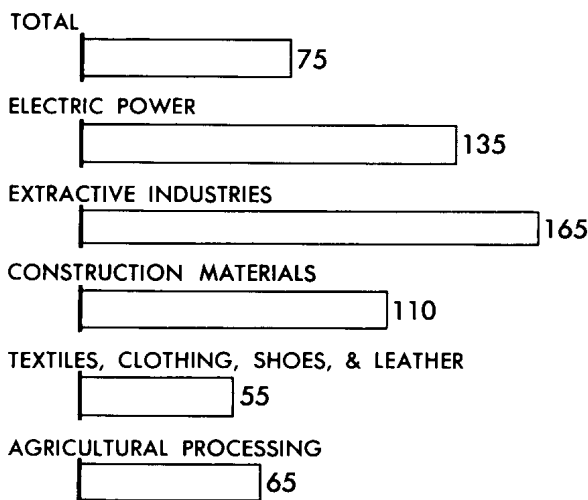
Figure 2

ALBANIA INDUSTRIAL STRUCTURE AND GROWTH

ANNUAL PERCENTAGE INCREASES IN INDUSTRIAL PRODUCTION, 1951-65



ESTIMATED PERCENTAGE INCREASE IN PRODUCTION OF SELECTED INDUSTRIAL BRANCHES,* 1955 TO 1960



OUTPUT PER CAPITA OF SELECTED INDUSTRIAL PRODUCTS, 1960

Albanian production of steel, coke, and nearly all types of chemicals, machinery, and equipment was zero or negligible in 1960.

	UNITS	ALBANIA	YUGO-SLAVIA
Primary Energy	Kilograms**	750	750
Electric Power	KWH	120	479
Iron Ore	Kilograms	158	118
Cement	Kilograms	45	130
Sugar	Kilograms	7	14

***Estimate in terms of standard fuel of 7,000 kilocalories per kilogram.*

**Calculated from official data on the physical production of a sample of industrial products. Estimated indexes for various industrial branches were weighted by official data on the gross value of production. Where two or more products were available for a branch, the data were aggregated by means of Polish prices.*

III. Industrial Structure and Growth

Albanian industry produces mainly fuels, ores, lumber, foods, and textiles. The Hoxha regime has stressed development of extractive industries and production of electric power in a series of Five Year Plans begun in 1951, but it has made little attempt to establish other branches of heavy industry because of Albania's extremely limited market and lack of know-how. After more than a decade of rapid growth the industrial sector is still very small, and agricultural processing remains the largest branch even though only a small share of the food supply is processed commercially. Ranking next in importance are the textile and fuel industries.

This type of industrial structure has both advantages and disadvantages from the point of view of the economy's vulnerability to a reduction in imports. Albanian dependence on imports of materials is generally small, although minor amounts of a few items are needed. Moreover, production difficulties in one branch of industry have limited repercussions on other branches because of the restricted extent of vertical integration. Production levels in the extractive industries, for example, primarily affect the availability of goods for export, although some petroleum and copper ore are processed domestically. Agricultural processing and textile production largely reflect the level of agricultural production and influence consumption rather than production in other parts of the economy. The disadvantage of this industrial structure is that Albania is overwhelmingly dependent on foreign countries for the machinery and equipment required for investment projects.

Production of selected industrial products in Albania in 1950, 1955, and 1960-61 is shown in the following tabulation:

Product	Unit*	1950	1955	1960	1961**
Electric power	Million kilowatt-hours	21.4	85.3	194	206
Crude petroleum	Thousand tons	131.8	208.1	700	800
Coal	Thousand tons	40.9	194.6	290.5	306
Chrome ore	Thousand tons	52.2	122.1	289.1	315
Blister copper	Tons	938	939	944	1,325
Iron-nickel ore	Thousand tons	0	0	255.1	375
Cement	Thousand tons	15.9	44.5	72.9	74
Bricks	Million units	14.1	57.8	130.3	N.A.
Sawn timber	Thousand cubic meters	51.5	106.6	170.2	N.A.
Plywood	Thousand cubic meters	0	3.3	6.0	N.A.
Veneer	Thousand square meters	0	636	3,634	N.A.
Cotton fabrics	Million linear meters	1.1	18.6	25.2	N.A.
Woolen fabrics and blankets	Thousand linear meters	0	636	1,198	N.A.
Shoes and sandals	Thousand pairs	291	510	830	N.A.
Refined sugar	Thousand tons	0.6	7.1	11.1	12.0
Tobacco products	Thousand tons	0.3	1.0	2.0	1.5

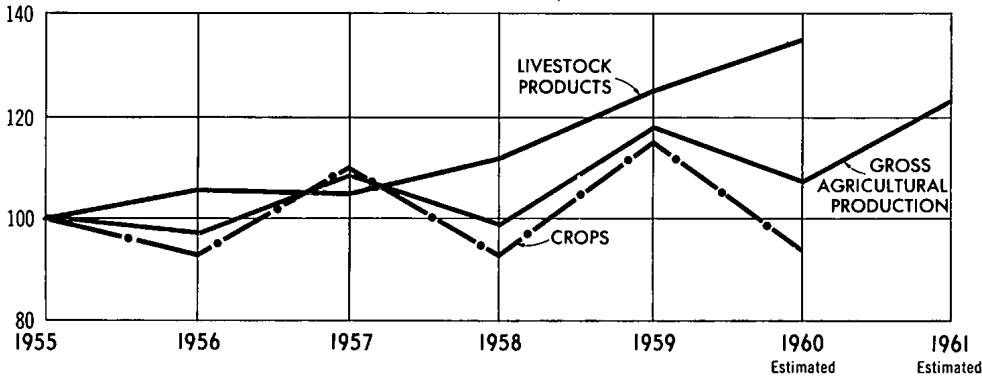
* All tonnages are given in metric tons throughout this report.

** Estimated.

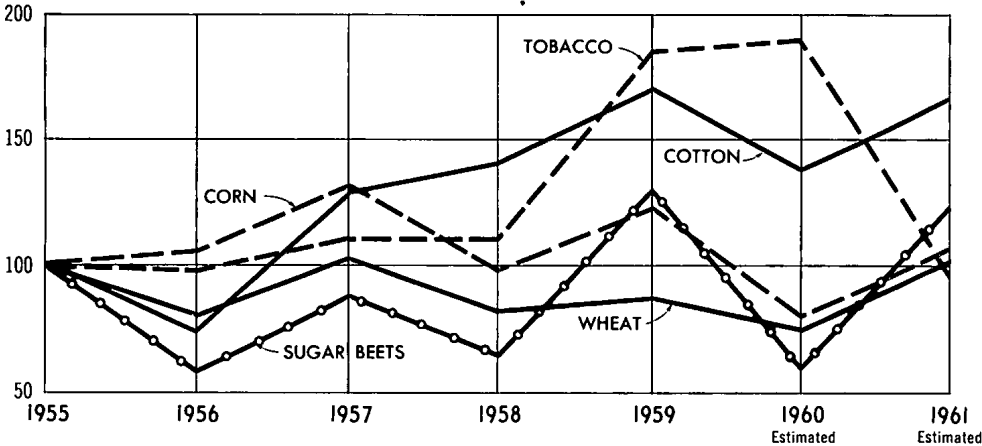
Figure 3

ALBANIA: AGRICULTURAL DEVELOPMENT

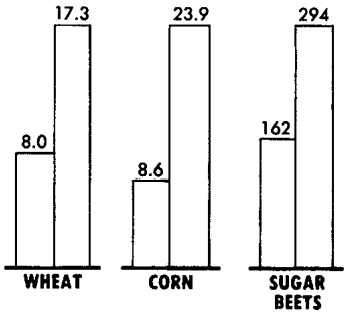
INDEXES OF GROSS AGRICULTURAL PRODUCTION, 1955-61



INDEXES OF PRODUCTION OF SELECTED CROPS, 1955-61

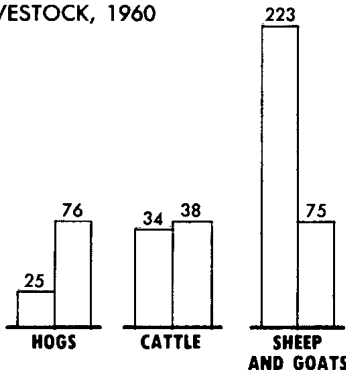


COMPARISON OF YIELDS OF SELECTED CROPS, 1960



QUINTALS PER HECTARE

COMPARISON OF DENSITY OF LIVESTOCK, 1960



NUMBER OF ANIMALS PER 100 HECTARES OF AGRICULTURAL LAND (ARABLE LAND FOR HOGS)

IV. Agricultural Development

Agricultural production in Albania has shown a moderate upward trend in recent years in spite of the disruptive effects of the campaign, now almost completed, to socialize the land. Production in 1961 exceeded that in 1960 and apparently was about one-fourth higher than production in 1955. Population rose about 20 percent during this period, however, and Albania still produces less food (although not less agricultural produce of all kinds) than it consumes.

Some progress has been made in raising the extremely low crop yields in Albania, but gains in agricultural production also reflect increases in the cultivated area and in employment. By giving high priority to reclamation projects and by promoting the cultivation of marginal land, the regime has increased the amount of arable land by about 13 percent since 1955. Opportunities for increasing the amount of arable land are diminishing, however, and Albania needs more chemical fertilizer and insecticides and higher quality seed and livestock to raise agricultural productivity substantially. Farming practices are improving but remain primitive by Western standards.

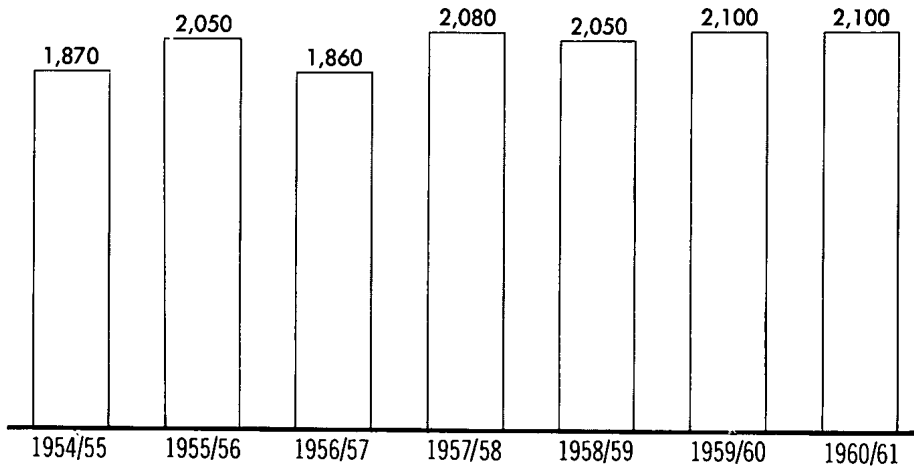
The variety of climatic conditions in Albania permits production not only of the usual grain and root crops but also of such products as tobacco, cotton, citrus fruits, grapes, and olives. Tobacco and tobacco products constitute one of the leading exports, reaching a value in 1959 equivalent to that of imports of grain. Inasmuch as production of crops is subject to large year-to-year variations because of frequent drought, varying amounts of wheat must be imported to stabilize the level of food consumption.

Livestock numbers and productivity continue to be too low to make much of a contribution to the diet. The effort being made to develop animal husbandry is, however, one reason for Albania's continuing need for imported wheat. The area planted to corn, the leading crop, was greatly expanded from 1955 to 1960 in order to improve the fodder supply, whereas the area planted to wheat declined, thus increasing dependence on imports of wheat. If necessary, Albania can increase its production of wheat substantially by shifting away from corn and other crops. A large step in this direction was taken in the 1960/61 crop year, when the area planted to wheat was increased about one-third.

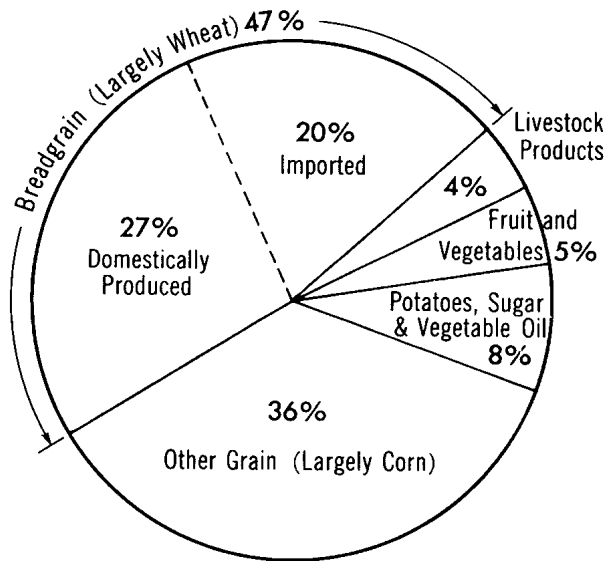
Figure 4

ALBANIA: FOOD SUPPLIES

ESTIMATED AVERAGE AVAILABILITY OF FOOD PER CAPITA, IN CALORIES
PER DAY, 1954/55 TO 1960/61 (CONSUMPTION YEARS)

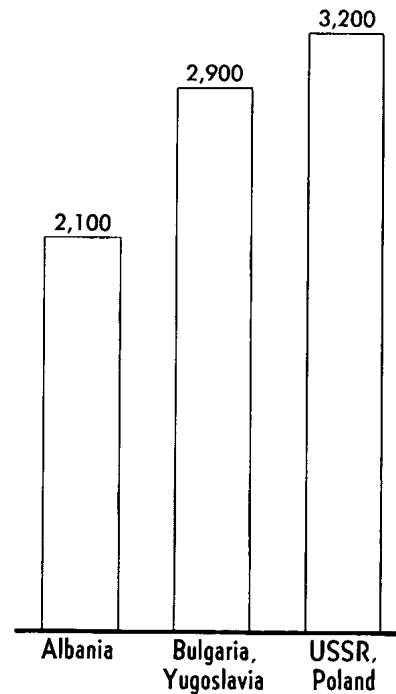


ESTIMATED COMPOSITION OF FOOD
SUPPLY IN TERMS OF CALORIES
1959/60



COMPARISON WITH SELECTED
OTHER COUNTRIES

ESTIMATED AVERAGE AVAILABILITY OF FOOD
PER CAPITA IN CALORIES PER DAY, 1959/60



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V. Food Supplies

In spite of a significant increase in production of food crops and livestock products during the last decade, the Albanian diet is still poor both quantitatively and qualitatively -- the poorest in Europe and no better than the diet in various Asian countries. The estimated average daily availability of food per capita has not exceeded 2,100 calories in any postwar year compared with average availabilities of roughly 2,900 calories in Bulgaria and Yugoslavia in 1959/60. Most of the people still have diets derived chiefly from grain. It is estimated that more than four-fifths of the caloric intake in 1959/60 was derived from grain and that 20 percent of the intake consisted of imported wheat. The shortage of protein from livestock products has been partly made up by consumption of large quantities of beans and peas.

Food availabilities in the consumption year 1961/62 should be about the same as those in 1960/61. Because of the increased production of grain in 1961, smaller imports will be sufficient to maintain this level of food availabilities, as shown in the following tabulation:

Consumption Year (July Through June)	Thousand Tons of Grain*				
	Domestic Production		Net Imports (Wheat)	Total Availability	
	Total	Wheat		Total	Wheat
1956/57	316	94	85	401	179
1957/58	383	121	57	440	178
1958/59	292	97	94	386	191
1959/60	339	102	110	449	212
1960/61	235	89	215	450	304
1961/62	304	121	135**	439	256

Inasmuch as Communist China is expected to supply the 135,000 tons of wheat estimated to be needed during the current consumption year, there is no reason to believe that Albania will experience any abnormal shortages of food before the 1962 harvest. Because livestock products, vegetables, and vegetable oils will continue to be in short supply, however, no improvement in the quality of the diet is in prospect.

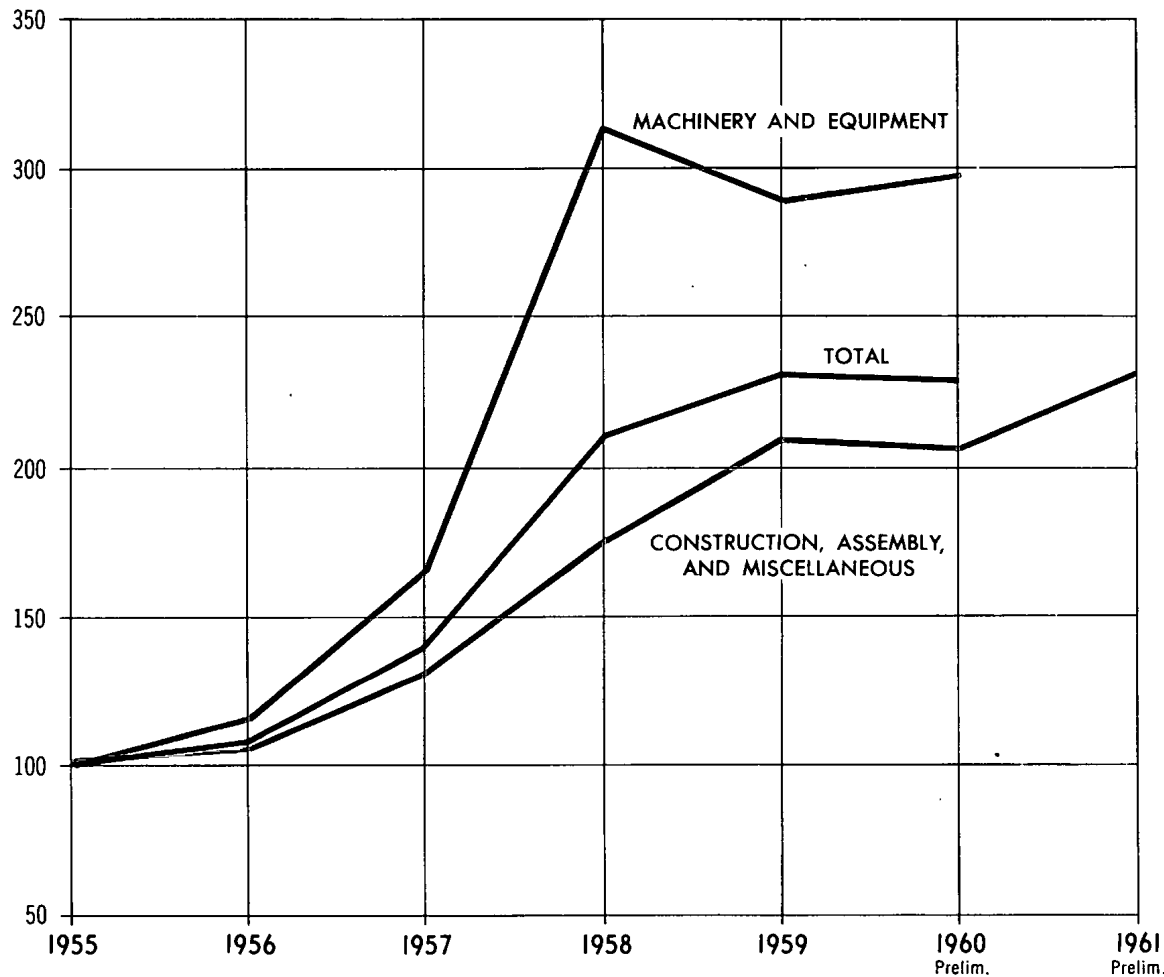
* Data on production for the last 2 years and on imports and total availabilities for the last 3 years are estimates. Imports officially reported for the calendar years 1957-59 are assumed to have been received during the first half of each year.

** Estimated amount needed to maintain food availabilities at the 1960/61 level.

Figure 5

ALBANIA: INVESTMENT

INDEXES OF GROSS FIXED INVESTMENT BY THE STATE, 1955-61



VOLUME AND DISTRIBUTION OF GROSS FIXED INVESTMENT BY THE STATE
1956-60 AND 1961-65 PLAN

BILLION LEKS AT 1961 PRICES

1956-60	Industry 44%	Agriculture 17%	Transp. & Comm. 14%	Social-Cultural 14%	Other 11%	46
Plan 1961-65	Industry 54%	Agriculture 13%	Transp. & Comm. 13%	Social-Cultural 15%	Other 5%	69.5

VI. Investment

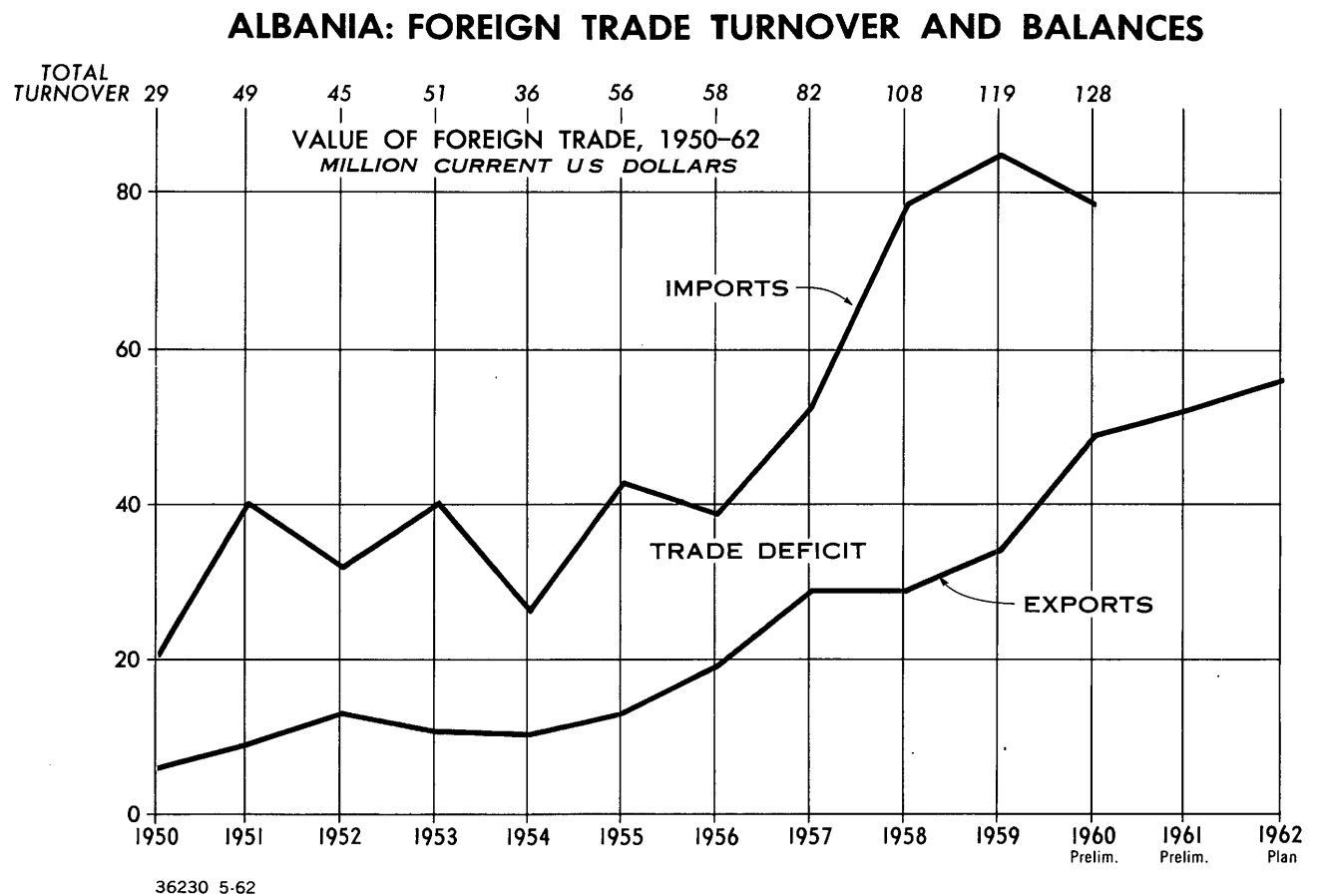
The postwar development of the Albanian economy rests in large part on a rapid expansion of investment in productive facilities. Some new industries such as petroleum processing and the mining of iron-nickel ore have been created since the war, and major additions have been made to the capacity of others. These investment activities have depended heavily on foreign economic and technical assistance. Virtually all machinery and equipment for investment projects must be obtained from abroad, and several hundred technicians from Soviet Bloc countries were working in Albania until those countries canceled their credits.

The role of the USSR in Albanian capital formation has been great. The Albanian statistical yearbook for 1959 lists 23 establishments as gifts of the USSR, including 5 electric power stations, a petroleum refinery, a cement plant, 4 wood-processing plants, 6 textile plants, and 3 agricultural processing plants. According to the yearbook, these establishments are valued at 422 million rubles (about \$105 million) and accounted for 25 percent of the total industrial production in 1958.

A large share of the total investment in Albania has been devoted to industrial development, as in other countries of the Bloc, and an even larger share than usual -- 54 percent of the planned total -- has been allocated to industry in the Third Five Year Plan (1961-65). As first published in 1960, the plan included such important projects as the construction (with Soviet and Satellite aid) of two fertilizer plants with supporting facilities producing basic chemicals, a cement factory, two timber combines, various additions to electric power capacities, several textile plants, and several facilities for the extraction and primary processing of minerals. Work on at least some of these projects is going forward with the assistance of Communist China, but certain industrial projects in the Third Five Year Plan probably have had to be postponed or abandoned.

In spite of the large increase scheduled in agricultural production, the new plan shows a reduced emphasis on agricultural investment, which is to be only 12 percent higher in 1961-65 than in 1956-60. Provision apparently was made for a large increase in expenditures for agricultural machinery and for reduced expenditures on reclamation because some of the most important reclamation projects had been completed. According to a recent broadcast from Tirana, China will supply "hundreds" of heavy tractors for Albanian machine tractor stations in 1962.

Figure 6



VII. Foreign Trade Turnover and Balances

Albania has had comparatively large deficits in its foreign trade for many years, and the size of these deficits on the whole has increased in recent years in spite of a rapid expansion of exports. Only in 2 years of the period 1947-60 did exports exceed one-half of imports. The annual trade deficit reached about \$50 million in 1958 and 1959 and averaged \$35 million during 1956-60. Substantially increased receipts of goods under long-term credits and growing ability to export resulted in a rapid expansion of trade turnover from 1956 to 1960 after a period that showed little upward trend. Exports also rose moderately in 1961, and preliminary information suggests that prompt Chinese Communist support maintained -- and possibly increased -- the level of imports in spite of the fact that deliveries from the USSR were sharply reduced. Planned increases in 1962 of 7 percent for exports and 10 percent for total turnover indicate that the regime expects a sizable increase in imports this year.

The trade deficits of the past decade were financed by credits and grants from Soviet Bloc countries, principally the USSR. This role has now been taken over by China, for credits by the Soviet Bloc to Albania were canceled in 1961. Affected by this action were the unused portions of the Soviet credit of \$84 million extended in 1959 and the combined East German and Czechoslovak credit of \$35 million extended in 1958, together with the Czechoslovak, East German, and Hungarian credits of early 1961. The amounts of the last three credits are not known, but they apparently provided substantial support for Albania's economic development during its Third Five Year Plan (1961-65). The credit of \$125 million* extended by China in early 1961 compensates at least partly for the loss of Soviet and Satellite credits, and China reportedly extended another credit in early 1962, but the nature and amount of the credit have not been revealed.

* It is not clear whether or not this amount includes the credit of \$14 million that was announced in 1959.

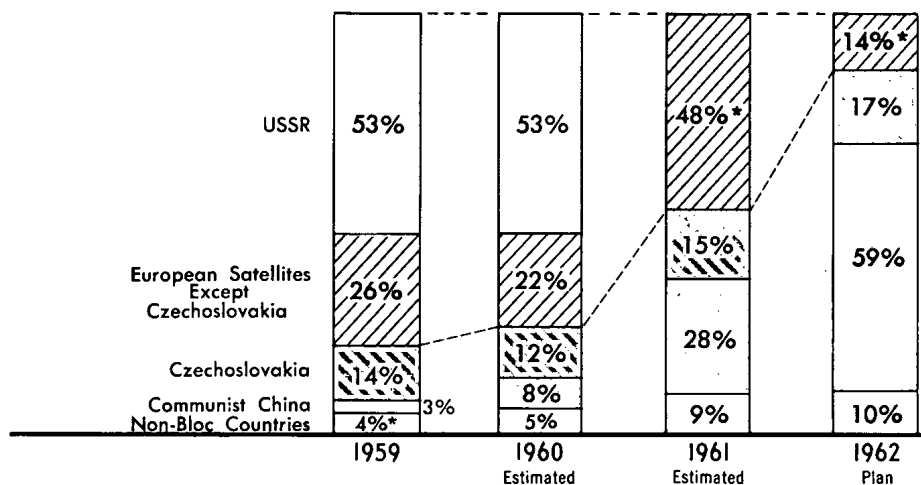
Figure 7

ALBANIA

GEOGRAPHIC DISTRIBUTION OF FOREIGN TRADE

TRENDS IN GEOGRAPHIC DISTRIBUTION 1959-62

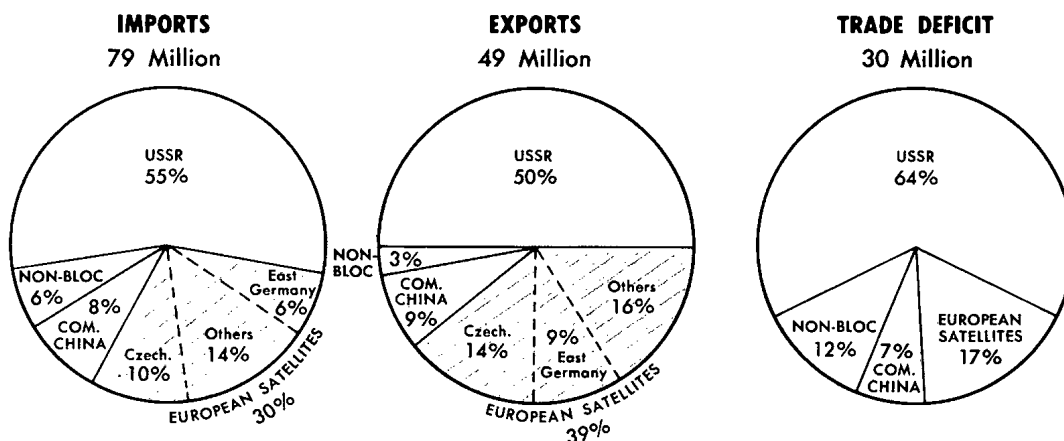
(PERCENT OF TOTAL TURNOVER)



*Including a small amount of trade with the Asian Satellites.

ESTIMATED GEOGRAPHIC DISTRIBUTION OF FOREIGN TRADE, 1960

(CURRENT US DOLLARS)



Because of rounding, data may not add to 100.

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VIII. Geographic Distribution of Foreign Trade

The USSR has been the principal trade partner of Albania during the postwar period, generally accounting for one-half or more of its turnover, but a drastic shift of trade to Communist China has been precipitated by the Soviet-Albanian dispute. As recently as 1959, Albanian trade with China did not exceed 3 percent of total trade. A recent broadcast from Tirana indicates that this share increased to 28 percent in 1961 and is planned to reach 59 percent in 1962, marking a complete reorientation of trade from the USSR to China.

Although trade with the USSR apparently has ceased, exchanges are continuing with the European Satellites, which also have accounted for a large part of Albanian trade since the war. Albanian trade with Czechoslovakia rose 44 percent in 1961, according to Czechoslovak statistics, and is scheduled to rise another one-fourth in 1962. Polish data for 1961 show a 30-percent increase in imports from Albania and a 13-percent increase in exports to Albania compared with 1960. Data on trade in 1961 with the other four Satellites are not yet available, but it seems likely that trade with these countries declined in the aggregate.

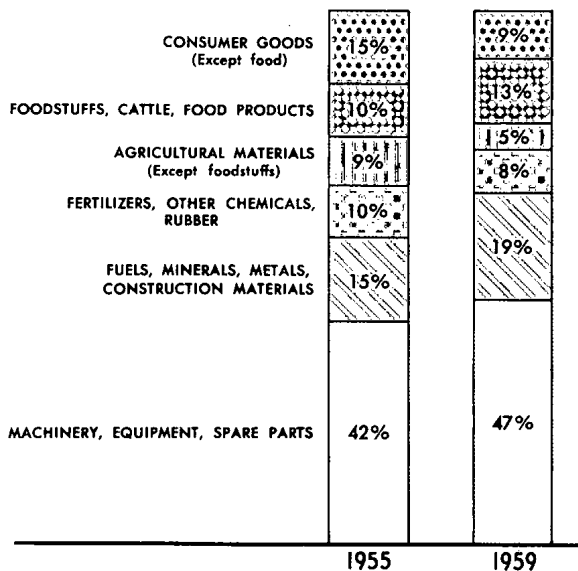
Albania has concluded trade agreements for 1962 with all six of the other Satellite countries. Reports of these agreements include the usual lists of goods that have been important in this trade but generally give no indication of the volume of trade agreed on for 1962. The abovementioned broadcast indicates, however, that the planned share of trade with the Satellites other than Czechoslovakia is much smaller than the share in 1960 and may be smaller than the share in 1961.

Because of its strained relations with the USSR, Albania recently has attempted to expand its trade with countries outside the Bloc. As a result, the small share of such countries in Albanian trade increased significantly in 1961. Further expansion of such trade is planned for 1962, when non-Bloc countries are scheduled to account for 10 percent of Albania's total trade.

Figure 8

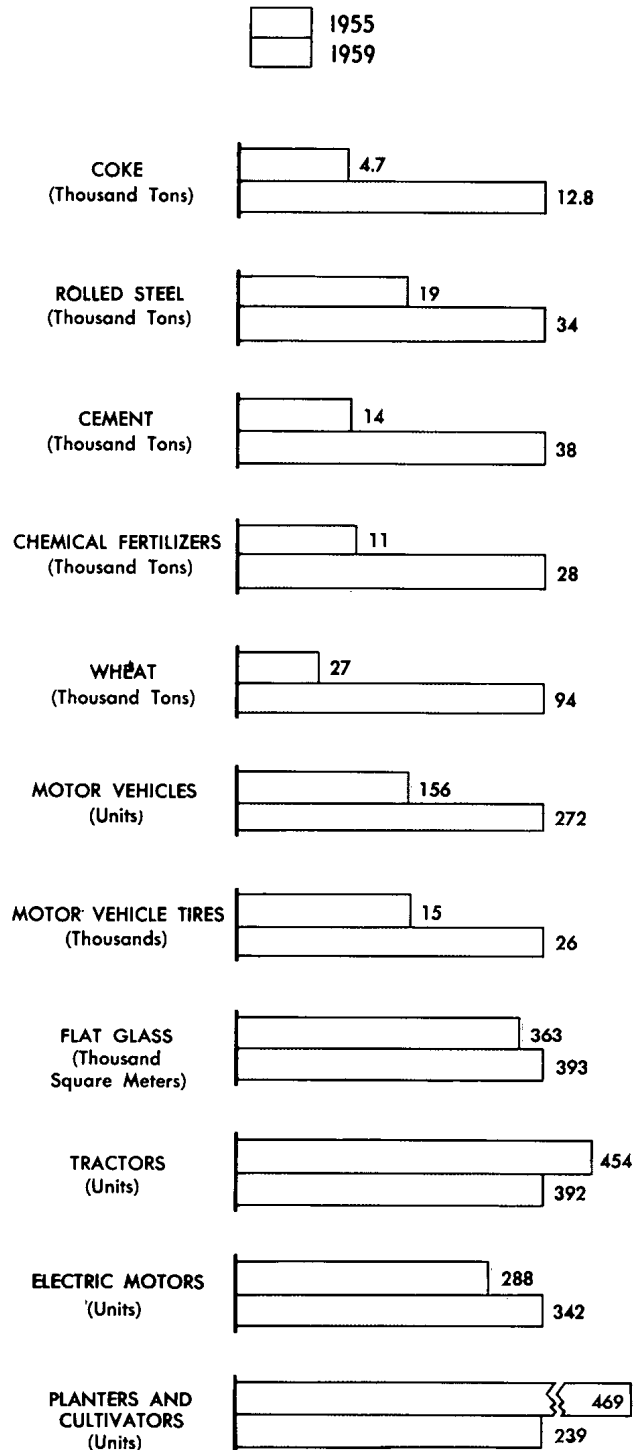
ALBANIA: IMPORTS

COMMODITY COMPOSITION OF IMPORTS

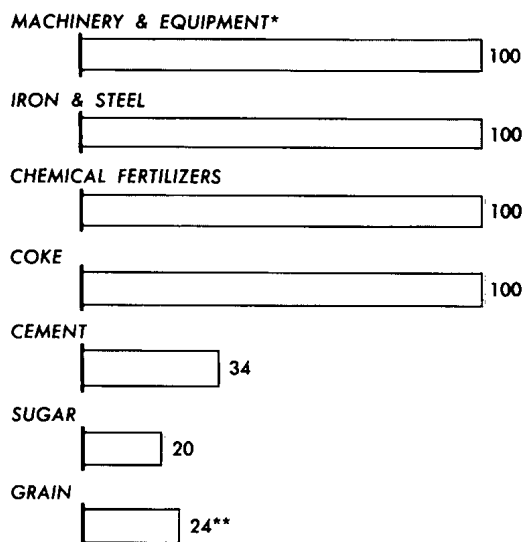


Because of rounding, data do not add to 100.

IMPORTS OF SELECTED PRODUCTS



IMPORTS OF SELECTED PRODUCTS AS A PERCENT OF TOTAL DOMESTIC SUPPLY 1959



*With minor exceptions

**Percentage in the 1958-59 consumption year

IX. Imports

Albania's most important imports are (1) machinery and equipment, (2) wheat, (3) steel, coke, and cement, and (4) chemical fertilizers. Except for wheat and cement, imports provide all or nearly all of the domestic supply of these products. Aside from the simpler types of construction work, the Albanian investment program depends almost entirely on imports of machinery and equipment and structural steel. The share of machinery and equipment in the rapidly growing value of imports increased from 1955 to 1959, reaching nearly one-half of the total in the latter year. Recent imports of machinery and equipment are as follows:

	Million US \$				
	Year	Total	Of Which from*		
			USSR	Czechoslovakia	Poland
Machinery and equipment	1958	39.7	26.2	3.6	1.8
	1959	39.8	24.1	4.5	1.8
	1960	N.A.	24.6	3.6	0.6
Of which:					
Equipment for complete enterprises		N.A.	12.8	1.6	Negl.
Agricultural machinery		N.A.	3.8	0.2	0.3
Transport equipment		N.A.	2.3	1.2	0.2
Oil well drilling equipment		N.A.	2.0	N.A.	N.A.

Basic industrial materials constituted about one-fifth of the total imports in 1959. Imports of coke are used in some small iron foundries. Imports of rolled steel, which amounted to about 34,000 tons in 1959, are important mainly in construction, food canning, and the manufacture of spare parts.

Imports of consumer goods other than wheat contribute little to the low standard of living of the Albanian population. Production of cotton fabrics does not appear to be very dependent on imports of cotton; some high-quality cotton is imported, but part of the low-quality domestic crop is exported. Albanian imports of fabrics have generally been smaller than exports, although the opposite was true in 1959.

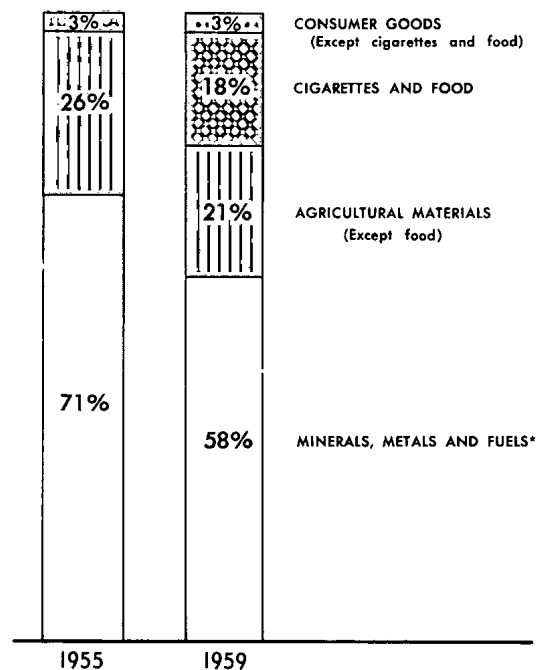
Very large shares of nearly all the products imported by Albania have customarily been obtained from the USSR and the Satellites but will now be obtained from Communist China and the Satellites. Among non-Bloc countries, Italy and Yugoslavia have recently been the most important sources of imports, supplying mostly machinery and equipment and chemical products.

* According to the trade statistics of the respective countries. The Czechoslovak figures are minimum amounts because the data are incomplete.

Figure 9

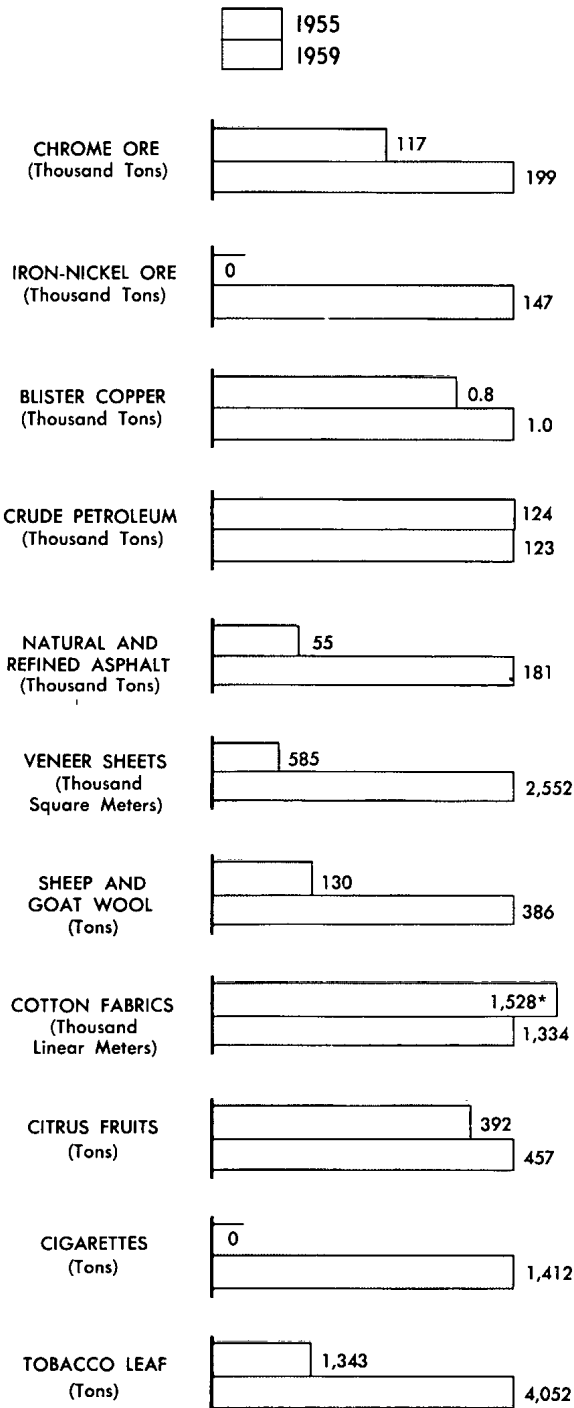
ALBANIA: EXPORTS

COMMODITY COMPOSITION OF EXPORTS



*Including negligible amounts of construction materials and chemical products.

EXPORTS OF SELECTED PRODUCTS



*1956

MAJOR EXPORT PRODUCTS

PRODUCTS PRODUCED SOLELY FOR EXPORT

CHROME ORE
IRON-NICKEL ORE
BLISTER COPPER

PRODUCTS LARGELY EXPORTED (In processed or unprocessed form)

PETROLEUM
TOBACCO

X. Exports

Albania's most important exports are chrome and iron-nickel ores, blister copper, petroleum and petroleum products, and tobacco and tobacco products. The relative importance of minerals, metals, and fuels declined from 1955 to 1959, but these products still made up nearly three-fifths of total exports in the latter year. Tobacco, wood and wood products, wool, hides, and other agricultural materials exclusive of foodstuffs accounted for another fifth of exports in 1959 -- also a smaller share than in 1955. The remaining exports consist largely of cigarettes and, less importantly, such food products as citrus fruits, olives, sardines, and wine. Exports of these products have risen very rapidly above the low levels of 1955. Chrome and iron-nickel ores and blister copper are produced solely for export, and a large part of the domestic production of petroleum and tobacco is exported in either processed or unprocessed form.

The regime is shifting a large part of its exports from Soviet Bloc countries to Communist China and also is seeking new customers in Western countries. Under their trade protocol for 1962, Albania will send to China chrome ore, crude petroleum, copper, and tobacco in exchange for grain, rolled steel, tractors, fertilizers, paper, and other goods. Small amounts of chrome ore have been exported in recent years to non-Bloc countries such as Italy and Yugoslavia, and it may be possible to increase deliveries to these countries substantially. Except for chrome ore, Albanian exports to non-Bloc countries recently have consisted mostly of minor amounts of fibers.

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XI. Prospects for 1962

The rupture of economic relations with the USSR probably will have little adverse effect on Albanian economic growth and living conditions in 1962, because of prompt Chinese Communist support and continuation of trade with the European Satellites. Imports of such materials as iron, steel, and coke are essential for the operation of several branches of Albanian industry, but the required amounts are very small, and if they cannot be obtained from the Satellites on a regular commercial basis, China can arrange such imports.

Investment expenditures leveled off in 1960 and probably increased only moderately in 1961, suggesting that the previous rapid expansion of productive capacity may have slowed down. It should be possible, however, to get increases in production in most industrial branches from existing capacities. The favorable harvest of food crops in 1961 will support gains in production of the food-processing industries in 1962, but these gains probably will be partly offset by the reduced amounts of tobacco available for processing.

The Albanian regime thus seems optimistic rather than irresponsible in planning a 6-percent increase in industrial production in 1962 compared with a planned annual average of 9 percent for 1961-65 and a claimed actual increase of 7 percent in 1961. The 1962 plan presumably reflects Albanian expectations of assistance from China and an assessment of prospects for expanded trade with non-Bloc countries, and consequently the plan itself is evidence that industrial growth is likely to continue at more or less the same rate as in 1961.

The volume of Albanian agricultural production in any one year depends to a large extent on the weather and only slightly on imports of fertilizers and other inputs. In any case, these imports are small and do not constitute much of a burden either on Albania's export capacity or on the country supplying them on credit. Albania may well have less favorable weather this year than last and may experience a decline in agricultural production from 1961. Even a sizable decline in production of grain, however, would not significantly affect the level of food consumption until 1963, and then only if China should inexplicably disclaim the responsibility that it assumed in this regard in 1960-61.

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XII. Prospects for the Next Several Years

Several factors that are unlikely to affect the Albanian economy much in 1962 will assume more importance during the next few years if Albanian relations with countries of the Soviet Bloc continue in their present state or become more strained. These factors fall into two groups: first, those bearing on the problem of obtaining efficient operation of existing facilities and, second, those bearing on the problem of achieving a rapid growth in capital formation to carry out the regime's program of industrialization.

Normal operation of existing facilities is unlikely to be hampered much by shortages of labor, although the loss of technicians from the Soviet Bloc may handicap some operations for a time in spite of assistance from Chinese Communist technicians. Supplies of nonagricultural materials also appear to be a marginal problem in keeping industrial facilities in operation. Import requirements are small, as noted previously, and can be paid for with Chinese credits, if not with commercial exports. Production in the food and textile industries is largely independent of the volume of imports, but, considering the prospects for domestic agricultural production, it probably will not rise much during the next several years.

The supply of spare parts is a potentially important problem because of Albania's great dependence on countries of the Soviet Bloc for such goods. It appears that such goods are no longer available from the USSR, but the Satellites are continuing to deliver spare parts, which are mentioned specifically in Albania's 1962 trade agreements with several Satellites. The problem is unlikely to become serious as long as the Satellites continue deliveries but could become troublesome if these supplies were cut off.

Albania's capability for repairing machinery and equipment and for manufacturing spare parts is rather limited, considering the near absence of metalworking industries, the lack of skilled labor, and the technical backwardness of the country. Albania has one important machine shop and foundries that can make simple iron castings from imported iron, but these facilities were not intended -- and clearly would be unable -- to take over the entire task of keeping production facilities in running order. China undoubtedly is able to give Albania some assistance in this regard, although not so effectively as the Satellites, because of its distance from Albania and its technical deficiencies.

The trend in the total industrial production, of course, also will be influenced by Albania's success in further expanding its stock of fixed capital, which will reflect (1) the volume of Chinese deliveries

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of investment goods under credits that have been or will be extended, (2) the volume of imports of investment goods that Albania can finance with its own resources, and (3) the construction capabilities of Albania and the extent of foreign technical assistance. It is difficult to say whether or not the credits canceled by countries of the Soviet Bloc have now been fully made up by China. There is much justification, however, for a generous estimate of the assistance that China is prepared to give Albania.

It seems extremely doubtful that Albania would have adopted so independent a position toward the USSR without the assurance of support from China. The large increase in Albanian-Chinese trade in 1961 and the planned increase of 130 percent in 1962 are strong evidence that such support is being given. Albanian requirements for credits are not large from the Chinese point of view, and Albania's alienation from the Soviet Bloc probably has a high political value to the Chinese leadership. Of course, even if the credits canceled by the Soviet Bloc have been fully made up by China, some transitional difficulties are to be expected.

Albania should be able to achieve some increases in its production and export of minerals, petroleum, tobacco, wood, and various products processed from these items, thereby enlarging its ability to finance imports of machinery and equipment. What success Albania may have in expanding trade with non-Bloc countries remains uncertain, but a large increase was achieved in 1961. China does not particularly need Albanian products, but it can use them and probably stands ready to absorb Albanian exports that cannot be marketed elsewhere.

Inefficiency, waste, and delay in construction work probably will be even more troublesome than usual with the transition from one source of investment goods and technical assistance to another, less well qualified one. Even with strong support from the Chinese and a growing export capability, Albania probably will be unable to expand its stock of fixed capital nearly as rapidly as in the 1950's. The once-common annual increases of one-sixth or more in industrial production no longer seem feasible -- and probably would not have been feasible even if there had been no Soviet-Albanian dispute. The planned average rate of industrial growth of 9 percent also seems beyond reach now, although it seems reasonable to expect moderate increases in output.

Albanian agricultural production in some of the coming years almost certainly will be lower than in 1961, but some upward trend may be expected, resulting in an average level of gross production equal to or slightly above production in 1961. The prospect for improvement in the diet is rather poor, especially in view of the expected annual increase in population of about 3 percent and the regime's strong reason to increase exports of foodstuffs. To maintain current levels of food

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availability per capita, required annual imports of breadgrains may easily range from 100,000 to 200,000 tons during this period. It is believed that China will satisfy these needs but probably will not support a rise in Albanian food consumption per capita in the face of its own food problem.

The Hoxha regime is relying heavily on large-scale aid from China, and there is little evidence that Chinese commitments are considered inadequate. The regime thus does not need -- and at the moment apparently does not want -- credits from Western countries, although it is interested in expanding regular commercial exchanges. The Chinese no doubt expect Albania to do as much for itself as possible and are willing to let it broaden its trade relations with the West to that end. From the Albanian point of view, expansion of trade with the West has the advantage not only of offering new markets but also of providing alternative sources of imports in an emergency. There also is the incidental benefit of maintaining Chinese resolve to meet essential Albanian needs, as China clearly would not want Albanian trade with Western countries to become too important. In order to expand trade rapidly with Western countries, Albanian officials will have to learn more about markets in these countries. Albania in the past has been very poorly informed about conditions in the world market, to its disadvantage in trade negotiations with countries of the Bloc.

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